DIRECT TESTIMONY
OF
HARRY L. SCRUGGS
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2007-5-G

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Harry L. Scruggs, 1426 Main Street, Columbia, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Lead Rate Analyst in the Gas Rates Department of SCANA Services, Inc.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a 1979 graduate of Erskine College where I received a Bachelor of Arts Degree in Mathematics. I was hired in June of that year by Carolina Pipeline Company as a gas control operator where I worked seven years. In August 1986, I went to work for SCE&G as an analyst in their Load Research Department. In February 1988, we formed the Gas Rates Department. In February 2007, I was assigned to my current position. I have developed and assisted in the development of cost of service studies, gas cost recovery mechanisms, allocation methodologies, rate analyses, and rate design.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?

A. Yes, on a number of occasions.

Q. WILL YOU BRIEFLY SUMMARIZE THE DUTIES YOU PERFORM FOR SOUTH CAROLINA ELECTRIC AND GAS COMPANY?

A. I am responsible for the preparation and development of gas cost of service studies, gas rate design, gas quarterly return on common equity filings and gas cost analyses.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to 1) support the Company's gas cost recovery mechanism and answer questions concerning its operation and performance and any changes as proposed by the Company, 2) explain the proposed changes to the calculation of the Demand Charges Cost of Gas factor to the Large General Service group and the Company's plan for collection of certain costs related to those Demand Charges that have not been recovered under the Purchased Gas Adjustment (PGA) as drafted, 3) explain related changes in Rate 35, firm Transportation Service, that require annual nominations of firm transportation quantities, 4) support the cost of gas data, including the over / under collection amount, for the period under review in this proceeding, which is September 2006 through February 2007 and 5) update and support the numbers concerning the previously approved transfer of the cost of gas portion of account 904 uncollectible revenue into the PGA collection mechanism for November 2007 implementation.

Q. PLEASE DESCRIBE THE COMPANY'S COST OF GAS RECOVERY MECHANISM AS CURRENTLY ADMINISTERED BY SCE&G.

A. SCE&G sets the gas cost factor for each customer class each month using a rolling 12-month forecast of both demand and commodity related inputs. SCE&G updates its cost of gas forecast each month using the new NYMEX prices for each of the next 12 months. SCE&G uses the NYMEX closing prices for a date selected by the Company allowing the revised rates to be filed in time to notify the Commission before the first billing cycle of the next month. The forecast is updated to reflect current assessments of anticipated industrial margins, capacity release credits and firm sales levels. The recalibrated 12-month recovery factor, adjusted to zero-out any prior month's over or under recovery over the 12-month period, sets the gas cost recovery factors for the up-coming month. After notifying the Commission, the new factors are implemented by the first billing cycle of the month.

Q. WHAT ARE THE UPDATED DEMAND COST OF GAS ALLOCATORS?

A. The Company reviews the demand charge cost of gas (DCOG) allocation factors each year at the time of the PGA docket and updates those to reflect current forecasts. These DCOG allocators are based on a weighting of 50% forecast sales and 50% forecast peak design day demand. The forecast peak design day for the upcoming 2007-2008 winter is 353,296 MCF or 369,519 dekatherms after adjusting for system losses. This figure is used for capacity planning purposes as illustrated in the testimony and exhibits of Supply witness Rose Jackson. Based on the latest annual sales and demand forecasts, the new allocation factors will be Residential at 66.68%, SGS/MGS at 30.58% and LGS at 2.74%. SCE&G plans to implement these new DCOG allocation factors effective as of August 1, 2007.

Q. PLEASE EXPLAIN THE COLLECTION OF DEMAND CHARGES FROM FIRM TRANSPORTATION CUSTOMERS UNDER THE CURRENT PGA.

A. In SCE&G's most recent rate proceeding, Docket No. 2005-113-G, SCE&G established a two-part cost of gas factor including separately stated Demand Charges and Commodity Benchmark charges. The Demand Charges components were intended to recover all of the costs SCE&G incurs on upstream pipelines in delivering gas to the SCE&G system. SCE&G proposed to apply the Demand Charges component to all firm volumes flowing on the SCE&G system, both commodity sales and firm transportation volumes.

The rationale for applying the Demand Charges components to firm transportation volumes is that customers historically have been allowed to nominate firm transportation monthly. As a result, SCE&G does not know in advance of a winter heating season which customers will choose to use firm transportation and what volumes will be transported. For that reason, SCE&G is required to contract for capacity available that is sufficient to meet all of its firm demand, including demands that will ultimately be served using firm transportation.

In the 2005 proceeding, certain firm transportation customers maintained that they or their gas marketers paid for delivery of gas to the SCE&G system at their own expense, and if SCE&G charged a Demand Charge factor on firm transportation they would pay twice for the same service. They proposed that SCE&G could avoid incurring demand charges related to their firm volumes by requiring firm transportation customers to nominate annually the volume they would receive as firm transportation supply during that year. However, the advance nomination would not allow SCE&G to adjust its Transportation Services portfolio to avoid incurring demand charges on the volumes to be transported because of the Standby Service provision in the Rate 35 tariff.

In the comprehensive settlement that was entered into in that proceeding, the Company agreed not to charge the Demand Charges component of the PGA on firm transportation volumes. However, considering the creation of the CGTC pipeline and the magnitude of the changes being imposed on customers and the system at that time, the parties deferred consideration of the proposal to require annual nominations for firm transportation.

Q. WHAT PROBLEMS HAVE ARISEN SINCE THAT TIME?

A. Since these proceedings, SCE&G has become aware of a problem regarding how the Demand Charges formula is stated in the Purchase Gas Adjustment tariff sheet. In making the changes to the tariff sheets to reflect the Settlement Agreement, the denominator for computing the Demand Charges was not adjusted to remove the original reference to the firm transportation volumes. In other words, the formula computes Demand Charges based on a denominator that includes firm transportation volumes that are not subject to Demand Charges. As a result, the Demand Charges factor computed using that formula does not recover the full amount of SCE&G's demand charges. Because over and under collections are computed using the same formula, these un-recovered amounts never appear in the over or under collection balances. Instead, they represent system costs that are not recovered in any way under the PGA. These costs are, however, real costs of delivering the natural gas purchases to SCE&G's natural gas distribution system. To the extent that these costs are not recovered under the PGA, they are reflected as upward adjustments in base rates under the Rate Stabilization Act ("RSA").

Q. WHAT IS THE AMOUNT OF DEMAND CHARGES THAT HAVE GONE UN-RECOVERED UNDER THE PGA?

A. The amount of Demand Charges that were un-recovered during the twelve months ended March 31, 2007 as a result of the formula has been $1.358 million. That amount will continue to increase monthly until the formula is amended.

Q. HOW IS SCE&G PROPOSING TO SOLVE THIS PROBLEM?

A. SCE&G is proposing to do several things:

1. Delete the reference to Transportation Volumes from the Demand Charges formula contained in the PGA and make other changes to that tariff sheet to ensure that future under or over recoveries of demand costs are based on actual demand costs and revenues, not formula-based over or under recoveries which may not reflect actual costs and revenues in all cases. The revised tariff sheet is attached to my testimony as Exhibit ___ (HLS-1). SCE&G respectfully requests that these changes be made effective as of August 1, 2007.

2. Recover the balance of un-recovered demand costs under the Demand Cost recovery formula by adding it to the cumulative over or under collection balance under the current PGA mechanism. The amount to be recovered through the PGA would be $1.358 million, plus un-recovered amounts for April-July 2007. Revenues reflected in the RSA filing on June 15, 2007 would then be adjusted by the appropriate amount to ensure that these expenses are not reflected in base rates under the RSA.

3. SCE&G will require Rate 35 customers wishing to receive firm Transportation Service to elect firm Transportation Service with or without Standby Service on an annual basis. A binding election would be due by October 15th of each year to be effective for the period November 1st to October 31st. The revised second page of the Rate 35 tariff sheets is included as Exhibit__(HLS-2). With these changes, the recovery of Demand Charges under the PGA will function as intended.

Q. WHAT IS THE COMPANY'S CURRENTLY APPROVED RATE FOR COST OF GAS?

A. As of this filing, cost of gas factors approved by the Commission for June 2007 for SCE&G are $1.18903 for Residential, $1.12362 for Small General Service/Medium General Service and $1.10745 for Large General Service. The above gas cost factors reflect a Firm Commodity Benchmark for all firm customer classes of $.96056 per therm.

Under the provisions of Order No. 2006-679, SCE&G is allowed to make monthly adjustments in PGA factors as conditions change. During the review period, SCE&G has adjusted the factors authorized in Order No. 2006-679 both up and down. On average, the PGA factors charged during the review period were $1.19447 for Residential, $1.09548 for Small General Service/Medium General Service and $1.06091 for Large General Service. The above gas cost factors reflect an average Firm Commodity Benchmark for all firm customer classes of $0.93283.

Q. DURING THE PERIOD UNDER REVIEW, HAS SCE&G ADMINISTERED THE PGA IN ACCCORDANCE WITH THE TERMS OF ORDER NO. 2006-679?

A. Yes. During the review period, SCE&G has carefully followed the terms of Order No. 2006-679, and where applicable other Commission orders and directives. The results are set forth on Exhibit No.___ (HLS-3). That exhibit has been prepared in accordance with the applicable Commission orders and accurately reflects administration of the PGA under the terms and conditions established by the Commission.

Q. PLEASE EXPLAIN EXHIBIT NO. _____(HLS-3).

A. Exhibit No. ___ (HLS-3) shows monthly over and under collections experienced by SCE&G in administering the PGA during the period under review. This exhibit shows that SCE&G entered the period under review with an under collection of $3,739,096. As of the end of April 2007, there is an over-collection of $3,786,383.

Q. PLEASE UPDATE THE AMOUNT OF UNCOLLECTIBLE REVENUE TO BE INCLUDED FOR COLLECTION IN THE DEFERRED GAS COST ACCOUNT.

A. As was detailed in the testimony of Kenneth R. Jackson in last year's PGA docket, 2006-5-G, and approved by the Commission in Order 2006-679, SCE&G reviews the FERC Account 904 uncollectible balance at the time of the annual RSA filing and calculates the cost of gas portion of the balance. This calculated percentage will be applied to the monthly net write-off amount assigned to Account 904 and the result netted against the deferred commodity gas cost account beginning in November 2007.

Q. WHAT IS SCE&G REQUESTING?

A. SCE&G is requesting that the Commission find that the Company has recovered its gas costs for the Review Period consistent with its tariffs and Commission orders and that it has purchased its gas supplies and administered the PGA in a prudent and reasonable manner. Also, we ask this Commission to approve the changes to the PGA mechanism, approve the new DCOG allocation factors, approve the method detailed for the collection of the un-recovered DCOG amount and approve changes to the Rate 35 tariff sheet.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Exhibit No.____ (HLS-1)

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PURCHASED GAS ADJUSTMENT
FIRM GAS ONLY

This adjustment is applicable to and is part of the Company's firm gas rate schedules. The cost will be calculated to the nearest one-thousandths of a cent, as determined by the following formula, and will be included in the base rates to the extent approved by the Public Service Commission. All costs and factors will be recalculated monthly for a forward looking 12-month period. Adjustments in gas cost factors will be made for all factors in any month in which the recalculation indicates that any factor requires an adjustment of $0.01 per therm or more. The recalculation shall be made based on information current as of a mid-month date selected by the Company which allows for revised factors to be filed and acted on by the Commission before the first billing cycle of the month in which they are to be effective. All components of the recalculation (commodity costs, demand charges, firm sales, industrial revenue credits, capacity release credits, over or under collections, carrying costs, etc.) shall reflect current forecasts and balances as of the date of the recalculation. Differences between firm cost of gas revenues actually billed and firm cost of gas expenses actually incurred for each month, as defined below, will be calculated monthly, for both Demand Charges and Firm Commodity Benchmark charges, and accumulated. The accumulated amounts will be applied to subsequent cost of gas factor calculations as detailed herein with monthly carrying costs calculated at the rate of one-twelfth of the annual applicable interest rate. This annual rate is defined as the rate of interest as of the first day of each month for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points (0.65 percentage points) with this total carrying costs annual rate not exceed 6%. The rate will be applied to the cumulative balance of over or under recovery as of the close of the prior month for each customer class for both demand and commodity with no carrying cost applied to over or under-collection balances equal to or exceeding $20 million dollars. The resulting interest adjustment will be applied to the demand and commodity cost of gas recovery balances for each customer class. The Demand Charges and Firm Commodity Benchmark charges shall be calculated as set forth below.

A. Demand Charges:

$$\textbf{Demand Charges per Therm by Class} = \frac{[a-(b+c)] \times \text{Rate Class Percentages *}}{\text{Firm Sales Therms by Rate Class}}$$

(a) Capacity charges and reservation fees for transportation, storage and LNG.
(b) Released capacity at 75% of the net compensation received from secondary market transactions. (See "Note-1" below)
(c) Margin Revenue from interruptible rates above $.02081 per therm. Margin Revenue is the total amount received for such sale less the commodity cost of gas determined in B below.

* The rate class percentages are (Residential Rate 32 -66.68%, General Rates 31, 33 & 36 -30.58% and Large General Rates 34 & 35 - 2.74%).

All calculations of Demand Charges by customer class shall be done monthly. The full amount of any Margin Revenue as stated in C above, shall be credited to the Demand Cost. Additionally, SCE&G will revise the rate class percentages to reflect the current weighting of 50% of annual peak day forecast and 50% of forecast annual sales in each annual Purchased Gas Adjustment filing.

NOTE-1: "Released Capacity" shall include all transactions which involve the use of gas transportation capacity rights, storage rights or similar off-system rights or assets owned by SCE&G, but only if the cost of those rights or assets is borne by firm gas customers in South Carolina. "Net value received" shall mean the gross compensation received from the "released capacity" transactions, less all transportation charges, taxes or other governmental charges, brokerage fees or commissions, or other costs or charges related to the transaction, including all costs incurred in purchasing natural gas supplies that form part of the transaction.

B. Firm Commodity Benchmark:

Where: Firm Gas Cost per Therm = $\frac{(p-d)}{s}$

(p) Total variable cost of natural gas (processed or unprocessed), vaporized liquid natural gas, synthetic gas, propane-air mixture, landfill gas, or other source of methane gas or any mixture of these gases entering the Company's system in dollars including any additions or subtractions from Price Risk Adjustment.

(d) The cost of gas attributable to all sales made by the Company to customers under an interruptible rate or contract or any Special Market Priced Customers, such costs to be calculated by dividing the total price paid for commodity gas for the month by the volumes of gas purchased for the month (adjusted for shrinkage) with the resulting unit price then multiplied by interruptible sales therms for the month. (See "Note-2" Below)

(s) Total firm therm sales of gas. Total sales being defined as those sales excluding gas sold under D above recorded on the Company's books in Accounts 480 through 483 per The Uniform System of Accounts for Class A and B Gas Utilities of the National Association of Regulatory Utility Commissioners (NARUC).

NOTE-2: Special Market Priced Gas includes, without limitation, market priced gas sold to Compressed Natural Gas (CNG) customers under SCE&G's Developmental Rate for CNG and emergency gas customers sold under provisions providing for Emergency Gas sales.
The appropriate revenue related tax factor is to be included in the calculation of Demand Charges and the Firm Commodity Benchmark.

C. Alternative Commodity Benchmark Calculation Related to Interruptible Sales

Interruptible sales are priced to reflect the cost of gas supplies available at the time the sales are transacted. The Firm Commodity Benchmark is calculated as a system-wide average at month's end. In some cases, the market price of gas supplies may change within a month such that the Firm Commodity Benchmark plus $.02081 per therm is higher than the price quoted for interruptible sales. In such cases, SCE&G may calculate an Alternative Commodity Benchmark for those interruptible sales whose prices fall below the Firm Commodity Benchmark. SCE&G shall then use that Alternative Commodity Benchmark plus $.02081 per therm in calculating the Margin Revenue from those sales.

The Alternative Commodity Benchmark --The Alternative Commodity Benchmark shall be calculated using the following formula:

$$\textbf{Cost of Gas per Therm} = \frac{p}{d}$$

(p) Total variable cost of gas (of whatever type) entering the Company's system that was purchased, nominated, injected or otherwise obtained to support the interruptible sales whose prices are lower than the Firm Commodity Benchmark.

(d) The interruptible sales, in therms, whose prices are lower than the Firm Commodity Benchmark.

The costs and quantities of gas used in such calculation shall be excluded from the calculation of the Firm Commodity Benchmark under Section B, above.
Margin Revenue from Interruptible Sales: In those months in which SCE&G elects to compute an Alternative Commodity Benchmark for interruptible sales, it shall use that Alternative Commodity Benchmark to compute Margin Revenue from interruptible sales and shall include the Margin Revenue so calculated in factor (c) of the Demand Cost calculation under Section A, above.

Whenever SCE&G elects to compute an Alternative Commodity Benchmark for interruptible sales, it shall provide written notice thereof to the Commission and the Office of Regulatory Staff, within 30 days of adopting the resulting adjustment to prices and volumes.

DELIVERED GAS QUANTITY

The volume of gas received on a daily basis for customer's account may not equal the volume, less shrinkage, delivered to the customer. The result will be deemed an imbalance. Customer's account will be reviewed at the end of each month, or on termination of Transportation Service or curtailment or discontinuance thereof. If the imbalance is such that the customer has received more gas than was delivered to the Company during the period under review, customer shall be billed for such as standby service. If the imbalance is such that the customer has received less gas than was delivered to the Company, the Company may exercise one of two options, in its sole discretion. The Company may: (1) deliver the excess gas to the customer, over the next calendar month succeeding the review, at such times as the Company shall determine in its sole discretion; or (2) buy excess gas at Company's lowest delivered purchase price in that month from any of Company's suppliers.

LIABILITY

The Company shall not be liable for curtailment of service under this rate schedule or loss of gas of the customer as a result of any steps taken to comply with any law, regulation, or order of any governmental agency with jurisdiction to regulate, allocate or control gas supplies or the rendition of service hereunder, and regardless of any defect in such law, regulation, or order.

Gas shall be and remain the property of the customer while being transported and delivered by the Company. The customer shall be responsible for maintaining all insurance it deems necessary to protect its property interest in such gas before, during, and after receipt by the Company.

The Company shall not be liable for any loss to the customer arising from or out of service under this rate schedule, including loss of gas in the possession of the Company or any other cause, except gross or willful negligence of the Company's own employees or agents. The Company reserves the right to commingle gas of the customer with other supplies.

SALES AND FRANCHISE TAX

To the above will be added any applicable sales tax, franchise fee or business license tax which may be assessed by any state or local governmental body.

PAYMENT TERMS

All bills are net and payable when rendered.

TERM OF CONTRACT

The customer shall execute an Agreement of Service with the Company which shall specify the maximum daily volume of gas to be transported, the period of time that the Company will receive such gas, and all conditions under which delivery to the Company will be accepted and delivery to the customer will be made. The customer must provide the Company with all necessary documentation of ownership and authorization required by any regulatory body with jurisdiction.

GENERAL TERMS AND CONDITIONS

The Company's General Terms and Conditions are incorporated by reference and a part of this rate schedule.

ANNUAL NOMINATION

Customers must elect to receive a) Transportation Service only, b) Transportation Service with Standby Service, or c) Standby Service only for each applicable period. Such elections must be made to the Company in writing by October 15th of each year to be effective for each month during the period November 1st to October 31st following. New customers under this tariff shall elect volumes at the time their service contract becomes effective. If no prior election has been made then the customer will receive Standby Service only. If any customer fails to make a timely election, then the prior period election will carry over for the following period. All elections shall be binding for the duration of the November 1st ot October 31st period and may not be revoked, suspended or modified by the Customer.

Exhibit No._____ (HLS-3)

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PURCHASE GAS ADJUSTMENT
OVER/UNDER COLLECTION

		COMMODITY COST PER THERM (COL. 1)	BILLING COMMODITY COST PER THERM (COL. 2)	DIFFERENCE (COL. 3) (1-2)	FIRM SALES THERMS (COL. 4)	COMMODITY (OVER)UNDER COLLECTION (COL. 5) (3x4)	DEMAND (OVER)UNDER COLLECTION (COL. 6)	PRIOR MONTH ADJUSTMENTS (COL. 7)	TOTAL MONTHLY (OVER)UNDER COLLECTION (COL. 8) (5+6+7)	CUMULATIVE (OVER)UNDER COLLECTION (COL. 9)
BEGINNING BALANCE ---										$3,739,096
SEP 06	Actual	$0.68180	$1.07101	($0.389210)	6,973,937	($2,714,328)	$2,270,517	$0	($443,812)	$3,295,284
OCT 06	Actual	$1.26415	$1.07101	$0.193142	8,560,817	$1,653,454	$1,179,490	($3,102)	$2,829,842	$6,125,126
NOV 06	Actual	$1.18090	$0.81391	$0.366992	16,885,343	$6,218,101	($1,009,389)	$0	$5,208,712	$11,333,838
DEC 06	Actual	$0.99154	$0.94182	$0.049719	26,861,927	$1,363,914	($2,912,180)	$0	($1,548,265)	$9,785,573
JAN 07	Actual	$1.22643	$0.98895	$0.237477	27,191,786	$6,515,992	($2,847,867)	$0	$3,668,125	$13,453,698
FEB 07	Actual	$0.84270	$0.88402	($0.041322)	39,866,633	($1,598,577)	($6,032,338)	$295	($7,630,621)	$5,823,077
MAR 07	Actual	$0.58741	$0.92764	($0.340234)	26,924,211	($9,152,442)	($202,610)	($895)	($9,355,946)	($3,532,869)
APR 07	Actual	$0.80485	$0.95766	($0.152815)	14,883,441	($2,276,321)	$2,022,807	$0	($253,514)	($3,786,383)